

EVART PUBLIC LIBRARY

EVART, MICHIGAN

YEAR ENDED JUNE 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Evart Public Library	County Osceola
Audit Date 6/30/04	Opinion Date 9/3/04	Date Accountant Report Submitted to State: 11/18/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Baird, Cotter & Bishop, P.C.			
Street Address 134 W. Harris Street		City Cadillac	State MI
Accountant Signature <i>Stephen P. McMullen, C.P.A.</i>		ZIP 49601	Date 11/18/04

EVART PUBLIC LIBRARY
EVART, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2004

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Baird, Cotter and Bishop, P.C.

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September 3, 2004

INDEPENDENT AUDITORS' REPORT

To The Members of the Board
Evart Public Library
Evart, Michigan

We have audited the accompanying basic financial statements of Evart Public Library, Evart, Michigan, as of and for the year ended June 30, 2004, as listed in the table of contents. These basic financial statements are the responsibility of the Evart Public Library's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of Evart Public Library as of June 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Library has implemented a new financial reporting model as required by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* as of July 1, 2003.

The management's discussion and analysis and budgetary comparison information on pages iii through vii and 16, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as "Other Information" in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements, and in our opinion, it is fairly stated in all material respects in relation to the financial statements taken as a whole except as noted in the preceding following paragraph.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2004

Evart Public Library, a Public Library located in Osceola County, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Evart Public Library's administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2004. In future years, comparative information will be provided.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: Fund financial statements and government-wide financial statements.

A. Fund Financial Statements

For the most part, the fund financial statements are comparable to prior years' financial statements. The primary difference is that the Account Groups (General Fixed Assets and General Long-Term Debt) are no longer reported. The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

B. Government-wide Financial Statements

The government-wide financial statements, required by GASB 34, are new and being shown for the first time for June 30, 2004 for the Evart Public Library. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Library's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as long-term debt of the Library.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2004

C. Summary of Net Assets

The following schedule summarizes the net assets at June 30, 2004:

Assets	
Current Assets	\$ 98,105
Non Current Assets	
Capital Assets	\$ 851,193
Less Accumulated Depreciation	128,514
Total Non Current Assets	\$ 722,679
Total Assets	\$ 820,784
Liabilities	
Current Liabilities	\$ 7,586
Non Current Liabilities	88,739
Total Liabilities	\$ 96,325
Net Assets	
Invested in Capital Assets Net of Unrestricted	\$ 627,268
	97,191
Total Net Assets	\$ 724,459

D. Analysis of Financial Position

During the fiscal year ended June 30, 2004, the Library's net assets increased by \$1,712. A few of the more significant factors affecting net assets during the year are discussed below:

1. Depreciation Expense

GASB 34 requires Libraries to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2004

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2004, \$44,467 was recorded for depreciation expense.

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2004, \$98,752 of expenditures were capitalized and recorded as assets of the Library. These additions to the Library's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets and the current year's depreciation is an increase to capital assets in the amount of \$54,285 for the fiscal year ended June 30, 2004.

E. Results of Operations

For the fiscal year ended June 30, 2004, the results of operations were:

	<u>Amount</u>	<u>% of Total</u>
General Revenues		
Property Taxes	\$ 53,691	36.17%
Investment Earnings	339	.23%
State Sources	65,718	44.28%
Other	<u>27,766</u>	<u>18.71%</u>
Total General Revenues	\$ <u>147,514</u>	<u>99.39%</u>
Program Revenues		
Operating Grants	\$ <u>911</u>	<u>.61%</u>
Total Revenues	\$ <u>148,425</u>	<u>100.00%</u>
Expenses		
Recreation and Culture	\$ 142,368	97.04%
Interest on Long-term Debt	<u>4,345</u>	<u>2.96%</u>
	<u>146,713</u>	<u>100.00%</u>
Change in Net Assets	\$ <u>1,712</u>	

EVART PUBLIC LIBRARY
EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2004

F. Analysis of Significant Revenues and Expenses

Significant revenues and expenses are discussed in the segments below:

1. Property Taxes

The Library receives property taxes for operations.

For the year ended June 30, 2004, the Library recognized \$53,691 of property tax revenue.

2. State Sources

The majority of the state sources are comprised of penal fines received from Clare and Osceola Counties. The Library collected \$59,041 in penal fines for the year ended June 30, 2004.

G. General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the Board approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the year on June 30.

For the year ended June 30, 2004, the Library amended the general fund budget in June 2004. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
Total Revenues	\$ 163,000	\$ 163,000	\$ 148,425	\$ (14,575)
Total Expenditures	163,000	214,765	207,670	7,095

The variance in the Total Revenue Original Budget to Final Budget was an increase of \$ 0. The variance in the Total Expenditures Original Budget to Final Budget was an increase of \$45,093.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2004

H. Capital Asset

1. Capital Assets

At June 30, 2004, the Library had \$851,193 in capital assets, including land, buildings, leasehold improvements and equipment, furniture and fixtures, as well as books. Depreciation expense for the year amounted to \$44,467 bringing the accumulated depreciation to \$128,514 as of June 30, 2004.

I. Factors Bearing on the Library's Future

At the time that these financial statements were prepared and audited, the Library was aware of the following items that could significantly affect its financial health in the future:

A significant portion of the Library's funding comes from property taxes and penal fines, any impairment to these funding sources would greatly impact the future of the Library.

J. Contacting the Library's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report, please contact the Evart Public Library, 104 N. Main Street, Evart, MI 49601.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2004

ASSETS

CURRENT ASSETS

Cash	\$ 62,483
Taxes Receivable	177
Due From Other Governmental Units	<u>35,445</u>

Total Current Assets	<u>\$ 98,105</u>
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NON CURRENT ASSETS

Capital Assets	\$ 851,193
Less Accumulated Depreciation	<u>128,514</u>

Total Non Current Assets	<u>\$ 722,679</u>
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TOTAL ASSETS	<u><u>\$ 820,784</u></u>
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LIABILITIES AND NET ASSETS

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 914
Current Portion of Long Term Debt	<u>6,672</u>

Total Current Liabilities	<u>\$ 7,586</u>
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NON CURRENT LIABILITIES

Line of Credit Payable	\$ 95,411
Less: Current Portion	<u>(6,672)</u>

Total Non Current Liabilities	<u>\$ 88,739</u>
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Total Liabilities	<u>\$ 96,325</u>
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NET ASSETS

Invested in Capital Assets Net of Related Debt	\$ 627,268
Unrestricted	<u>97,191</u>

Total Net Assets	<u>\$ 724,459</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 820,784</u></u>
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The notes to the financial statements are an integral part of this statement.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2004

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES CHARGES FOR SERVICES</u>	<u>GOVERNMENTAL ACTIVITIES NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS</u>
<u>GOVERNMENTAL ACTIVITIES</u>			
Recreation and Culture	\$ 142,368	911	\$ (141,457)
Interest on Long-term Debt	4,345	0	(4,345)
Total Governmental Activities	<u>\$ 146,713</u>	<u>\$ 911</u>	<u>\$ (145,802)</u>
<u>GENERAL REVENUES</u>			
Property Taxes -General Purposes			\$ 53,691
Investment Earnings			339
State Sources			65,718
Contributions and Donations			27,172
Other			<u>594</u>
Total General Revenues			<u>\$ 147,514</u>
Change in Net Assets			\$ 1,712
<u>NET ASSETS - Beginning of Year</u>			<u>722,747</u>
<u>NET ASSETS - End of Year</u>			<u>\$ 724,459</u>

The notes to the financial statements are an integral part of this statement.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

GENERAL FUND
BALANCE SHEET

JUNE 30, 2004

ASSETS

Cash	
Receivables	\$ 62,483
Taxes	
Due From Other Governmental Units	177
City of Evart	
Clare County	1,326
Osceola County	2,821
Osceola Township	29,757
	<u>1,541</u>
TOTAL ASSETS	<u>\$ 98,105</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 914
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FUND BALANCE

Unreserved	
Undesignated	<u>97,191</u>

TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 98,105</u>
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The notes to the financial statements are an integral part of this statement.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GENERAL FUND TO NET ASSETS

JUNE 30, 2004

Total General Fund Balance		\$ 97,191
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds		
The cost of the capital assets is	851,193	
Accumulated depreciation is	<u>(128,514)</u>	722,679
Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds		
Long term liabilities are not due and payable in the current period and are not in the funds		
Line of Credit Payable		<u>(95,411)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>\$ 724,459</u>

The notes to the financial statements are an integral part of this statement.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2004

REVENUES

Local	
City of Evart	
Current Property Tax	\$ 34,210
Industrial Facilities Tax	2,155
Evart Township	
Current Property Tax	11,050
Osceola Township	
Current Property Tax	6,276
State Grants	
Library State Aid	6,677
Library Penal Fines	
Clare County	2,821
Osceola County	56,220
Contribution from Local Units	
Hartwick Township	300
Orient Township	400
Sylvan Township	750
Interest and Rents	
Interest and Dividends	339
Other Revenues	
Contributions and Donations from Private Sources	25,722
Charges for Services	911
Sale of Books	547
Miscellaneous	47
Total Revenues	<u>\$ 148,425</u>

EXPENDITURES

Recreation and Culture	
Personal Services	
Librarian	\$ 32,015
Technician and Aides	15,010
Custodial	5,834
Treasurer	2,024
Museum Coordinator	4,075
Trustees	2,100
Fringe Benefits	
Social Security and Medicare	4,672

The notes to the financial statements are an integral part of this statement.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2004

Supplies	
Office Supplies	991
Operating Supplies	1,957
Magazines and Newspapers	688
Museum Supplies	1,012
Purchased Services	
Auditing and Bookkeeping	3,495
Insurance	
Liability	2,459
Worker's Compensation	750
Telephone	1,479
Travel and Education	93
Utilities	
Heat	2,887
Electricity	6,451
Sewer and Water	193
Repair and Maintenance	2,729
Capital Outlay	
Books	15,615
Equipment	10,203
Building Remodeling	73,800
Miscellaneous Expense	
State Aid - Membership	3,338
Dues and Memberships	234
Taxes Abated and Written Off	232
Miscellaneous	2,317
Debt Service	
Loan Interest Payments	4,345
Principal Payment	6,672
Total Expenditures	<u>\$ 207,670</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (59,245)</u>
<u>OTHER FINANCING SOURCES</u>	
Proceeds from Debt Issuance	<u>71,267</u>
Net Change in Fund Balance	<u>\$ 12,022</u>
<u>FUND BALANCE - Beginning of Year</u>	<u>85,169</u>
<u>FUND BALANCE - End of Year</u>	<u><u>\$ 97,191</u></u>

The notes to the financial statements are an integral part of this statement.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE OF GENERAL FUND TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2004

Net change in Fund Balance General Fund	\$ 12,022
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(44,467)	
Capital Outlay	<u>98,752</u>	54,285

Proceeds from borrowings are sources of financial resources to governmental funds, borrowings are added to long-term liabilities in the statement of net assets	(71,267)
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Long-term debt principal payments are not expensed on the Statement of Activities, instead charged to the Line of Credit liability account.	<u>6,672</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 1,712</u></u>
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The notes to the financial statements are an integral part of this statement.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Evart Public Library have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations.

Financial statements prepared using full accrual accounting for all of the Library's activities.

A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The Library has implemented the provisions of Statement No. 34 effective July 1, 2003.

A. Reporting Entity

The Evart Public Library is a district library established under the provision of Act No. 164, Public Acts of 1955. The accounting policies of the Evart Public Library conform to generally accepted accounting principles (GAAP) as applicable to governments. The following is a summary of the more significant policies:

The financial statements of the Evart Public Library include the accounts of all operations. The Library's major operation is to operate a public library in Evart, Michigan. The Library board consists of six members, two of whom are appointed by each of the City of Evart, Evart Township and Osceola Township. As such, the City of Evart, Evart Township and Osceola Township are all 1/3 owners of the Library.

In addition, there are no component units to be included in the Library's reporting entity as defined in Governmental Accounting Standards Board Statement No. 14.

B. Government-wide and Fund Financial Statements

For the fiscal year 2004, the Library adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets are often designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be modified or removed.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially responsible.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Library as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The Library only has a governmental fund called the General Fund.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Library are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

The Library reports the following major governmental fund:

The General Fund is the primary operating fund of the Library. It is used to account for all financial resources of the Library.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from date of acquisition.

The Library's investment policy states that the Evert Public Library is limited to investments authorized by Act 20 of 1943, as amended, and may invest in the following:

- (a) Certificates of Deposit
- (b) Savings Accounts
- (c) Money Market Accounts

2. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Books	10 years
Building	50 years
Furniture and Equipment	10 years
Building Improvements	20 years

The Library's capitalization policy is to capitalize individual amounts exceeding \$1,000 and all books.

3. Compensated Absences

Accumulated unpaid vacation, sick pay and other employee benefit amounts are not accrued in governmental funds (using the modified accrual basis of accounting). The Library does not allow employees to accrue these benefits beyond the end of the fiscal year. Also, upon termination of employment the employee will not be paid for any benefits accrued during the fiscal year.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

6. Fund Balance

In the financial statements, the unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reservations of fund balance are for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. **Budgetary Information**

The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The board of directors of the Library annually prepares an operating budget. The operating budget includes proposed expenditures and the means of financing them.
2. The budget is approved by the Library board prior to the start of the fiscal year which it covers.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

3. All transfers of budget amounts between accounts within the General Fund must be approved by the Library board.
4. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted in March 2003, or as amended by the Library board on June 21, 2004.
5. Budget appropriations lapse at the end of the fiscal year.
6. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Library because, at present, it is not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

III. DETAILED NOTES ON GENERAL FUND AND ACCOUNT GROUP

A. Deposits and Investments

At year end, the carrying amount of the government's deposits was \$62,357 and the bank balance was \$79,084 of which \$79,084 was covered by Federal Depository Insurance and \$0 was uninsured and uncollateralized. The Library had \$126 of petty cash on hand at June 30, 2004.

B. Due from Other Governments

Amounts due from other governments of \$35,445 are comprised of penal fines.

C. Capital Assets

A summary of changes in the Library's capital assets follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Capital assets:				
Land	\$ 15,000	\$ 0	\$ 0	\$ 15,000
Books	180,883	15,400	0	196,283
Building	90,000	0	0	90,000
Furniture and Equipment	12,288	9,552	0	21,840
Building Improvements	454,270	73,800	0	528,070
Subtotal	\$ 752,441	\$ 98,752	\$ 0	\$ 851,193
Accumulated depreciation	(84,047)	(44,467)	0	(128,514)
Net capital assets	\$ 668,394	\$ 54,285	\$ 0	\$ 722,679

EVART PUBLIC LIBRARY
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

Depreciation for the fiscal year ended June 30, 2004 amounted to \$44,467.

D. Property Taxes

The Library receives revenue from a millage on the December tax roll. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2004, the Library levied the following amount per \$1,000 of taxable valuation on city residents.

<u>PURPOSE</u>	<u>MILLS</u>
Operating	\$.9702/\$1,000

E. Long-Term Debt

The Library has secured a line of credit for \$100,000, to be used to complete the construction project which is remodeling the Library building. The balance outstanding at June 30, 2004 was \$95,411, which carried an interest rate that varied from 4.8% to 5.4%. The line is scheduled to mature on April 24, 2006.

A summary of the Long-Term Debt transactions for the Library for the year ended June 30, 2004, is as follows:

	<u>LINE OF CREDIT</u>
Long-Term Debt at July 1, 2003	\$ 30,816
New Liabilities	71,267
Liabilities Retired or Classified as Current	<u>(6,672)</u>
Long-Term Debt at June 30, 2004	\$ <u>95,411</u>

The annual requirements to amortize all long-term debt outstanding as of June 30, 2004, including interest payments of \$9,276 are as follows:

<u>YEAR ENDING JUNE 30</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>LINE OF CREDIT</u>
2005	\$ 6,672	\$ 4,836	\$ 11,508
2006	88,739	4,440	93,179
	<u>\$ 95,411</u>	<u>\$ 9,276</u>	<u>\$ 104,687</u>

EVART PUBLIC LIBRARY
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

F. Retirement Benefits

Retirement benefits are provided to the librarian and assistant librarians through contributions to individual retirement accounts after completing one year of service for the Library. Such contributions equal \$100 per month for the librarian. Individual retirement account balances become the property of the employee immediately. Therefore, there are no plan assets or liabilities which would be includible as part of the Library reporting entity. For the year ended June 30, 2004, \$1,200 was contributed to the individual retirement account of the librarian.

D. Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters. The Library participates in a pool of municipalities within the State of Michigan for workers' compensation insurance. The Library pays annual premiums to the pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Library has not been informed of any special assessments being required for the current year or previous three prior years.

The Library continued to carry insurance for other risks of loss, including fidelity bonds, liability, property and casualty, crime, and errors and omissions.

E. Collections of Works of Art and Historical Treasures

The Library, over the years, has received contributions from patrons for such items as mastadon bones collections and rare books. The Library considers these items to be of an intangible nature, and is unable to place a cost on the items. Therefore, the items are not shown on these financial statements, and accordingly, no depreciation expense has been recorded on these items.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED JUNE 30, 2004

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
<u>REVENUES</u>				
Local Sources	\$ 68,500	\$ 68,500	\$ 82,707	\$ 14,207
State Sources	94,500	94,500	65,718	(28,782)
Total Revenues	<u>\$ 163,000</u>	<u>\$ 163,000</u>	<u>\$ 148,425</u>	<u>\$ (14,575)</u>
<u>EXPENDITURES</u>				
Recreation and Culture				
Personal Services	\$ 60,650	\$ 62,310	\$ 61,058	\$ 1,252
Fringe Benefits	4,450	4,675	4,672	3
Purchased Services	22,775	24,925	20,536	4,389
Supplies	4,100	5,464	4,648	816
Capital Outlay	16,000	99,390	99,618	(228)
Miscellaneous	4,550	6,981	6,121	860
Debt Service				
Principal and Interest	0	11,020	11,017	3
Contingency	50,475	0	0	0
Total Expenditures	<u>\$ 163,000</u>	<u>\$ 214,765</u>	<u>\$ 207,670</u>	<u>\$ 7,095</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 0</u>	<u>\$ (51,765)</u>	<u>\$ (59,245)</u>	<u>\$ (7,480)</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Proceeds from Debt Issuance	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 71,267</u>	<u>\$ 71,267</u>
Net Change in Fund Balance	<u>\$ 0</u>	<u>\$ (51,765)</u>	<u>\$ 12,022</u>	<u>\$ 63,787</u>
<u>FUND BALANCE</u> - Beginning of Year	<u>85,169</u>	<u>85,169</u>	<u>85,169</u>	<u>0</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 85,169</u>	<u>\$ 33,404</u>	<u>\$ 97,191</u>	<u>\$ 63,787</u>

EVART PUBLIC LIBRARY
EVART, MICHIGAN

STATEMENT OF 2003 TAX ROLL
JUNE 30, 2004

	TAXABLE VALUE	MILLS LEVIED	TAXES ASSESSED	COLLECTIONS	TAXES RETURNED DELINQUENT
City of Evart					
Current Property	\$ 45,573,291	0.9702	\$ 44,215		
Less: D.D.A. Captured	(3,098,777)	0.9702	(3,007)		
L.D.F.A. Captured	(7,213,175)	0.9702	(6,998)		
	<u>\$ 35,261,339</u>	<u>0.9702</u>	<u>\$ 34,210</u>	\$ 34,072	\$ 138
Industrial Facilities	\$ 9,034,405	0.4851	4,383		
Less: L.D.F.A. Captured	(4,592,022)	0.4851	(2,228)		
	<u>\$ 4,442,383</u>	<u>0.4851</u>	<u>2,155</u>	<u>2,155</u>	<u>0</u>
			\$ 36,365	\$ 36,227	\$ 138
Evart Township	\$ 36,834,798	0.30	11,050	11,050	0
Osceola Township	\$ 20,918,720	0.30	6,276	5,682	594
			<u>\$ 53,691</u>	<u>\$ 52,959</u>	<u>\$ 732</u>
Total Amount Captured by the D.D.A. and L.D.F.A. Combined			<u>\$ 12,233</u>		

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Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

September 3, 2004

LETTER OF REPORTABLE CONDITIONS

Evart Public Library
Evart, Michigan

In planning and performing our audit of the basic financial statements of the Evart Public Library for the year ended June 30, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements.

1. The relatively small number of people involved in the accounting functions of the Library makes it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

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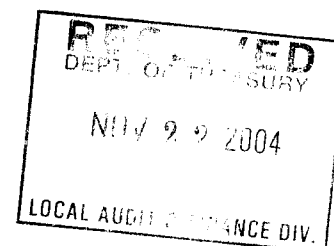
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CERTIFIED PUBLIC ACCOUNTANTS

September 3, 2004

Evart Public Library
104 North Main Street
Evart, Michigan



Dear Members of the Board:

We have completed our audit of the financial statements of the Evart Public Library and are communicating to you our findings and recommendations for the year ended June 30, 2004.

New Accounting Pronouncement

The Governmental Accounting Standards Board (GASB) has issued Statement 34 that provides for changes in reporting requirements for the Library financial statements. For the Library, these changes were implemented in the June 30, 2004 financial audit.

Some of the more significant changes required by GASB 34 are as follows:

- a) Management's discussion and analysis is a new section in the financial report. This includes the administration's narrative overview of the information contained in the financial statements.
- b) Several new types of financial statements are now included that reports financial information on a Library-wide basis and incorporates capital assets, a provision for depreciation on those assets as well as long-term liabilities of the Library.

We commend the Library for their diligent efforts and assistance necessary to implement these rather radical changes as required by this new reporting pronouncement.

Tax Roll Presentation

We included a tax roll reconciliation in this year's financial statements. This shows the taxable value of each unit and the mills being levied. It also shows the amount of captured tax of the LDFA and DDA and the one-half millage rates applied to industrial facilities tax properties. We are noting a .9702 mill levy on city residents and a .3 mill levy on township residents. Also, for the year ended June 30, 2004, the tax revenue for the 2003 tax settlement was partially received from Osceola Township. The Evart Public Library should have received an additional \$595. Osceola Township also still owes the Library for the 2001 and 2002 tax rolls. The total due from the last three years is \$1,542 as shown below. We recommend you send a reminder bill a couple months before June 30 each year to all the Townships to ensure timely payments of their tax dollars. We also recommend you send a detailed bill to Osceola Township in order to collect the \$1,542 due from prior tax rolls.

OSCEOLA TOWNSHIP:	TAXABLE VALUE	MILLS	TAX DUE	PAID TAX	UNPAID TAX
2001 Tax Roll	18,475,462	.03	5,543	5,465	\$ 78
2002 Tax Roll	19,994,497	.03	5,998	5,129	869
2003 Tax Roll	20,918,720	.03	6,276	5,681	595
					\$ <u>1,542</u>

Citizens Line of Credit

The Citizens line of credit used for the building project has a balance at June 30, 2004 of \$95,411. Interest rates during the fiscal year ranged from 4.8% to 5.4%. With the building project now complete, we recommend paying down the loan. The money in the checking account is only earning 0.25%. A reduction of the balance by \$50,000 will save the Library \$2,500 in interest charges over one year.

Conclusion

We wish to take this opportunity to thank the Board for the confidence they have expressed in our firm by awarding us this engagement. We hope these comments and recommendations will be viewed as constructive. Overall, we believe that the hard work and determination demonstrated by the Board and employees of the Library have enabled the Library to be successful, and will continue to make it successful well into the future.

BAIRD, COTTER AND BISHOP, P. C.

Baird, Cotter & Bishop, P.C.